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The UK equity opportunity: it pays to be selective

Investing for a world of change

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Key takeaways

– **The UK equity market remains attractive, but selectivity is crucial**
2025's UK equity gains were multiple-led rather than earnings-led – shares got more expensive – which makes stock selection increasingly important.

– **The buyback capital of the world**
The UK equity market continues to be one of the most shareholder friendly in the world, offering a compelling return from dividends, buybacks and M&A.

– **M&A validates the discount, but is bittersweet**
Bids are landing at 55-60% premiums yet still imply double-digit returns, confirming the market remains cheap.

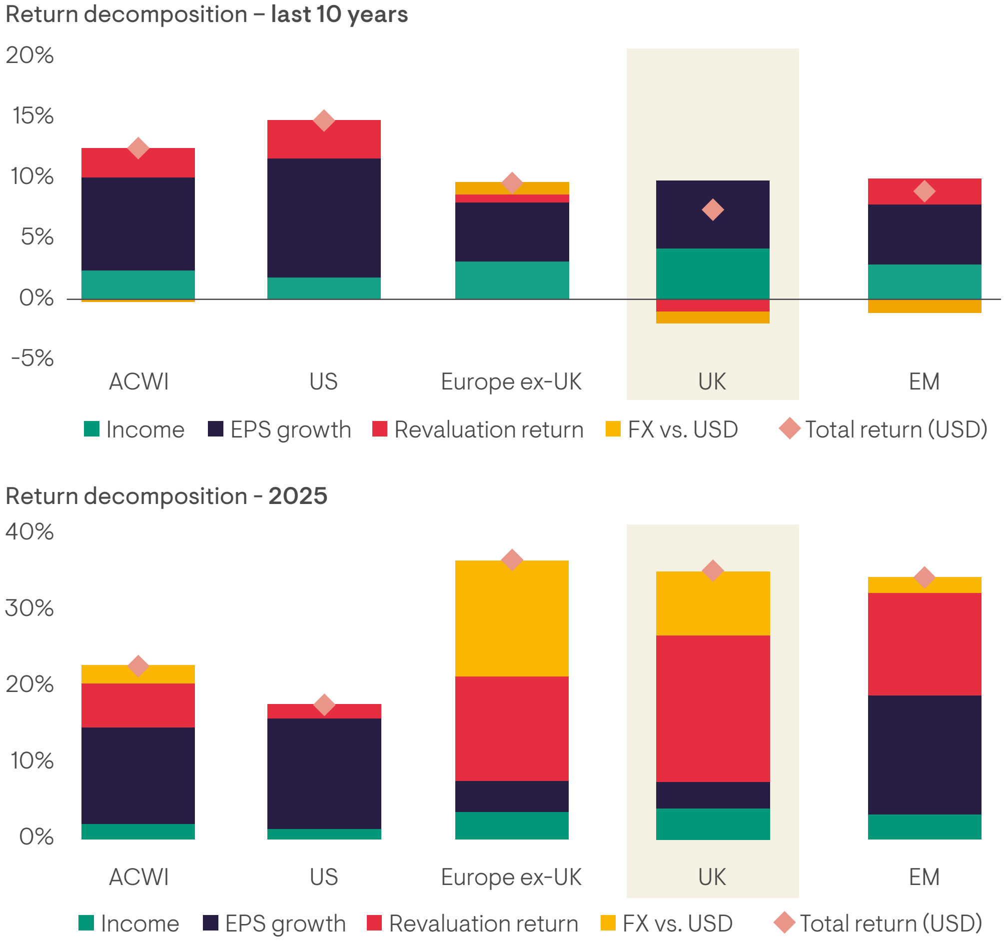
– **Structural selling pressure appears close to ending**
Defined Contribution growth, ISA reforms and returning international allocators point to a structural flow tailwind ahead.

– **Value and Quality can capture the opportunity**
We believe a portfolio built on a combination of 'Quality' and 'Value' can best capture the diverse range of bottom-up investment opportunities the UK offers, as well as the potential for a renaissance in the UK market in the coming years.

The UK equity market has had a solid time of it recently, backing up a double-digit return in 2025 with further gains so far this year. However, a striking aspect of this performance is that it has been mostly driven by multiple re-rating – shares becoming more expensive – with modest earnings growth.

After a decade of sustained de-rating, financials, materials and defence led a sharp recovery in the market's perception of the UK. However, now that many of these classic 'old industry' businesses have re-rated, the UK equity opportunity has become more heterogeneous, and that matters going forward. History shows that it is earnings and income that drive the bulk of shareholder returns, and to capture this, selectivity is crucial.

Figure 1: The UK's recent performance composition doesn't match its historical norm



Source: Ninety One, Bloomberg, December 2025.

One of the most interesting market dynamics in recent years has been the trajectory of traditional 'quality' businesses as cyclicals have recovered. While investors typically think of the UK as lacking in business quality, companies such as Experian, Sage and Autotrader[1] – all capital-light, financially sound leaders in their field – have de-rated from around 28x to 14-15x free cash flow since 2019.

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1. No representation is being made that any investment will or is likely to achieve profits or losses similar to those achieved in the past, or that significant losses will be avoided.
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Their earnings, for the most part, continue to compound, but a combination of AI disruption concerns, quality fund outflows and persistent hedge fund short-selling pressure has repriced these businesses to levels that increasingly resemble value multiples rather than quality premiums.

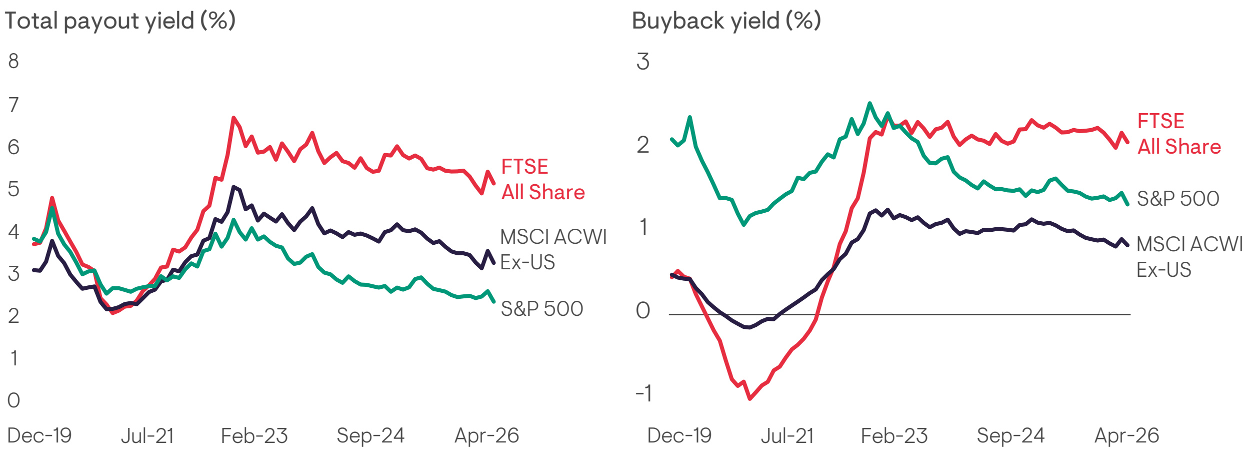
Given this backdrop, it appears that the ‘easy wins’ from style rotation are less obvious than they were. Therefore, the more productive question is perhaps no longer growth versus value, or quality versus cyclical, but rather identifying where the market has been too pessimistic, regardless of equity style boxes.

The UK is one of the most shareholder-friendly markets in the world

While much has been made of the UK equity market’s ‘decline’ of recent years, behind the scenes UK Plc has taken matters into its own hands and the UK has quietly become the buyback capital of the world. Today, discounting any re-rating, the UK offers around 8% in total shareholder returns before earnings growth is factored in. About 6% of this comes from payouts in the form of dividends and buybacks, with an additional 2% from M&A activity.

From this starting point, the UK offers the potential to capture further returns from earnings growth and capital returns, especially when the right companies are identified. After all, we would argue that the best investments are made when buying a growing stream of cash flows at a cheap price.

Figure 2: Behind the scenes, UK plcs are taking matters into their own hands



Source: Ninety One, Factset April 2026.

M&A validates the discount, but is bittersweet

A burst of deals this year has already lifted the total value of acquisitions above 2025 levels, with FTSE 100 bids coming in at 55-60% premiums. In fact, the first half of 2026 has been the strongest for purchases of UK companies by foreign buyers in almost two decades, according to the London Stock Exchange. Companies from both the value and quality universes have been subject to bids this year, including DCC, Beazley and Intertek.

Our take on this is somewhat nuanced. Even at the bid price, our analysis suggests potential annual returns for these excellent businesses are still in double-digit territory, so acquirers are bidding at just the right level to secure acceptance from frustrated shareholders, capturing companies at well below their fair value.

Figure 3: UK M&A deal value already matching 2025 with average of closed bids 53%

UK M&A deal value

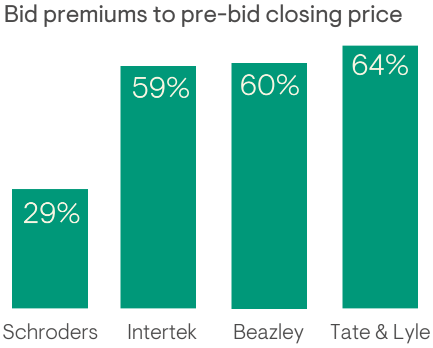
US$194bn

2025: full year

vs.

US$192bn

2026: Jan– ~18 May



Source: Ninety One, Reuters, LSEG, Bloomberg, June 2026.

The structural selling pressure seems close to exhausted

A structural evolution in the UK's pensions and investment landscape should be another tailwind for UK equities in the years ahead. The UK's Defined Benefit pension market is in managed decline – schemes are closing faster than they are opening, active membership has fallen 80% since 2006, and the remaining 4,800 schemes are steadily transferring their liabilities to insurers at a rate of £45-50 billion a year.[2] These domestic outflows caused by de-risking – moving from equities to bonds – have been a persistent headwind for the past 20-30 years. Defined Benefit schemes' allocation to UK equities dropped from 57% in 1993 to 48% by 2000, 31% by 2010, 16% by 2015 and just 6% by 2022, while bonds rose from 10% to a record 58.5% over the same period.[3]

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2. The Investment Association
3. Interactive Investor

The process of Defined Benefit de-risking is close to being complete; Defined Contribution assets are growing, ISA reforms encouraging UK investments should channel more retail capital into equities, and international investors are actively re-engaging after years of steering clear given recent outperformance and ex-US options being more widely considered. All of these factors point towards a structural tailwind for flows for the years ahead.

Closing thoughts

Overall, we remain optimistic on the outlook for UK equities. The UK continues to be home to a collection of globally leading businesses, diversified by industry and region, that continue to trade at relatively attractive valuations compared to global peers. Shareholder returns in the form of buybacks and dividends remain significantly above those available in other major markets, providing a strong foundation for future returns without any requirement for further re-rating.

With valuation dispersion increasing within sectors and cyclicals having performed strongly, we think selectivity is increasingly important. Both quality and value are two distinct yet complementary active investment approaches to accessing what the UK has to offer – in a market where the technical and structural backdrop is showing genuine signs of improvement. After more than a decade in the doldrums, this shift may prove to be a crucial turning point.

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